

Testimony to the Subcommittee on Livestock and Horticulture

31 July, 2006

Sioux Center, Iowa

Personal Background:

To introduce myself, I am Thomas E. Oswald a fourth generation farmer operating land near Cleghorn in Cherokee County of northwest Iowa. I am proud to grow corn and soybeans using direct seeding (no-till) methods which I find produce yields comparable to more conventional farming systems at reduced input and environmental cost.

In a review of the organizations to which I volunteer my time and energy, you will find that I am an At-Large Director of the Iowa Soybean Association and Chairman of the Cherokee (County) Soil and Water Conservation District board of commissioners. To be clear, the opinions I present today should in no way to be considered speaking for those groups. The words you hear or read are my own. However, I think many northwest Iowa farmers might voice or support similar opinions.

I have been involved in agricultural policy issues since 1981 when I graduated from Iowa State University with a Bachelor of Science Degree in Agriculture. I have served on agriculture advisory committees for both Congressmen Latham and King over the years.

In 1995, at an advisory committee meeting following a field hearing similar to this one today in Sioux Center, I asked a simple question that caused the room to go silent. That question was "Why do we have a farm program?"

I believe the silence was due to the time it took many to process the question. And, that is a big reason for problems in the "Farm Program" as I see it. It appears that few participants in the process seem to ever consider or ask the "Why?" question.

Until the "Why, Who, and What" questions are answered as part of a planning process looking at the end game, vision, and goals for this government expenditure, it is unlikely lasting success will be achieved. A definition of success must be developed from which to work backwards.

With this upcoming Farm Bill, the process is at risk of being centered on "more of the same" and protection of turf rather than seriously considering numerous stakeholder goals, values, or vision. I am not in the "it's good enough, extend it" camp. I would like to see a vision based rather than agenda based farm policy.

Observation:

For the 70+ years since the beginning of farm programs back in the days of the New Deal, the reasoning for said programs always seemed to be "To Save the Family Farm" or "To Provide a Safety Net". In the beginning, diversified small family operations that dotted the rural landscape were being squeezed between the dual forces of cyclic weather events and an unwinding of fiscal exuberance that occurred following World War I. Loan and price support programs were developed based on crop production and supply management. I believe the primary goal of such programs was to stabilize agricultural asset values lessening the rural impact on the nationwide banking crisis of the Great Depression.

Over the course of those 70 years, though discussed and attempted, there seemed to be little lasting resolve to wean program crop production agriculture from government payments. It seems like everyone is worried about the “safety net” not what the program is causing.

All the while, it was clear that family farm numbers and rural population as a whole were declining. The reality is that government farm program payments have become entitlements in the minds of many people. Just recently, I heard a farmer making a statement that he was “going in to (to the FSA and NRCS office) get some free money”. In my view, large entitlements devalue initiative within an industry and reduce its ability to compete and adapt. Row crop agriculture is a mature industry. Does it need much in the way of entitlement? Maximum efficiency should have been gained by now. Has it?

The decline in the percent of the U.S. population actively working in production agriculture is a function of technology. The trend of technology adoption and related productivity increases per person are not likely to level out or cease soon. Productivity growth has been a mainstay of this country... something to be proud of. I do not wish to return to “horse and buggy days”. But, many concepts we use in subsidizing program crops are still rooted in that era.

Many studies support the notion that agricultural asset values, in particular program crop land, have been distorted (increased beyond productive market value) by historic and expected future value of program payments.

If the goal of the farm program has been to save the family farm and rural population, there is plenty of evidence to the contrary. The net recipient of production based subsidies appears to be the value of program crop land and the balance sheet of whoever owns that land whether they farm and reside in rural America or not.

It is also clear that crops under program crop status are often in a state of overproduction with resultant distortions in cropping rotation and production systems from what likely would have occurred under a market-based system. Creativity and non-program crop production is penalized as producers drive to maximize payments by sourcing control of program crop land and pushing for maximum production on that land to capture maximum payments per acre controlled.

The major flaw in production based (acre/yield/price per yield) agricultural supports is that this becomes a treadmill running ever quickly and steeply. The supply of productive land in the U.S. is relatively fixed. It doesn't make economic sense to artificially support an already limited, expensive and required production medium (with hardly any substitute) in an environment where economic flattening of the world continues to find new, lower cost, or renewable lands suitable for production in other countries. I know land is technically an investment. But why should we be happy seeing the opportunity cost of operations being driven up due to a subsidy?

For the most part, subsidies that promote land values do the producer little good unless that producer owns most of the land in the farming operation. Studies show that operator ownership share (acres owned as a percent of acres farmed) is declining. Less than 50% of the land in Illinois is farmed by the owner if my memory of the numbers is correct. And, unless the unearned gain delivered by the subsidy is captured via borrowing, sale, or taxation, what good is the increased land value? The relationship between land value and crop value/profit is rather elastic as it is.

There is nothing wrong with land as a storage vehicle for wealth. But, the value should reasonably reflect productive value as it stands in competition with other unsubsidized investment

alternatives. Farmers have historically reinvested in their business any funds remaining after living and tax expenses. However, high volume, narrow margin crop production leaves little room for young farmers renting land to become owners after family living expenses are taken into account. Even with subsidies, for a cash rent farmer, the ability to retain a large share of the wealth created is limited..

It appears that subsidies which increase the opportunity cost of land are impeding the ability of new blood to own land. The average age of farmers keeps increasing. Somewhere in the future, substantial amounts of land will be positioned for transfer. The question is how many of the remaining producers will have the ability pay the price of land for sale? With that, will land continue to concentrate in the hands of those not actively participating in production? If the goal of current farm policy is to support asset values and concentrate land ownership, then it is working just fine. Is that what active farmers and the non-farm public really want?

The “Freedom to Farm” legislation of the 1990’s was in many ways a great improvement where planting flexibility opened the door to innovation in crop mix while allowing farmers to farm all of their productive land every year so long as relevant conservation measures were employed. Farmers by and large LIKE those freedoms. However, unanticipated elements of “Freedom to Farm” resulted in excessively low prices at times, huge cost to the treasury, disparities in payment distribution, and many potential challenges in the arena of world trade.

This doesn’t add up. For me, a corn and soybean producer in Iowa, the concern is, eventually, perpetually higher unlimited payments will be needed to maintain our principle program crop margins.

For the most part, before family operations build equity in their business, they have to pay the cost of family living with off-farm employment or as draws on the business. Annually, farm family living expenses don’t amount to hundreds of thousands of dollars. Something is broken when operations require payments many times that required for family living expense just to survive. This suggests an excessively high cost structure for that crop enterprise. Eventually, I predict, corn and soybean growers will be as addicted to program crop payments in an attempt to sustain operating margins as our farming brethren are with cotton and rice. Without restraint, we will cost ourselves out of any semblance of comparative advantage in the world marketplace.

In contrast to when this country was settled, nowadays out in the country, farming neighbors often view each other as competitors rather than members of a rural community. If something doesn’t change, negative baggage relating to this will likely accelerate the decline of rural counties containing a high percent of acres in highly subsidized crops and limited agricultural crop or business alternatives. If rural America is the soul of America, this isn’t a good thing to let happen.

To be clear, I do not advocate that the Federal Government abandon farm subsidies and rural development all together. We should be careful to not disarm in regards to world trade. What needs to be done is a very complete re-evaluation of the “Why” question I mentioned earlier. We need to find high moral ground in our policy and have tough resolve in dealing with those (businesses and countries) who attempt to play games with us.

Where from here:

In hearings such as this and numerous other information gathering sessions, the primary goal should be to develop a vision and definition of success... where we as a country want to be in

regards to production agriculture and rural development financial supports and rural financial health. Once defined, then it is imperative to align the behaviors (policy and programs) with such vision. I will suggest some ideas.

The first step is to determine if we value people (farmers, families, communities) more than we value assets (money, land values). I do not believe that subsidies that artificially support asset values are sustainable in the long term. Limited direct assistance to people working and innovating in a tough business environment is much higher moral ground compared to nearly unlimited assistance that seems to do nothing but enhance the balance sheets of already wealthy people. Once developed and stated, I believe we need to develop means to monitor if programs (behaviors) are successfully aligning with our values and vision.

Farm program policy of the past, for the most part, has been and still is an exercise in central planning. To get *the* subsidy, you had to grow *the* crop *the* “program” deemed applicable. Such programs have resulted in economic distortion as well as being proved questionable and anti-competitive in the world market. Innovation, entrepreneurial spirit, cropping mix/diversity and creativity in crop utilization have been stifled under such programs in my view.

People in the country need to be free to manage the land and other assets to the best of their comparative and competitive abilities. I truly believe that agricultural policy needs to return to a philosophy of asset pricing and allocation operating within in an environment of competitive and transparent markets on both the input and output sides. I know it won’t be easy as it appears that world trade talks aren’t defining the “WHY” question very well. We have GOT TO define what success looks like and innovate to get there.

Realities of Life:

Farm policy needs to incorporate some simple realities of life. Laws of nature and human nature really do not seem to vary that much. Both market based and central planning methods to allocate agricultural resources and production have weaknesses. Various methods won’t work well if they are not calibrated to handle the fact that the two “natures” are more powerful and good at finding gaps in logic or preparedness.

There is no question that Mother Nature is powerful, variable, and, at-times, unpredictable. But, she offers the opportunity to create new wealth in using her land. Allocation of resources to deal with the whims of nature is best left in the hands of people who understand what they are dealing with in their back yard... not in the hands of bureaucrats hundreds or thousands of miles away.

Though varying by culture around the world, the needs and requirements for people to survive intertwined with various virtues and frailties that make us human are constants that must be calibrated into policy. Yes, there are individuals and groups who are off the chart in some way or another but they are a minority in my mind. Very few people in the world have total disregard for family life. Most, I suspect desire a simple pursuit of happiness while living in a decent environment. These are values of common interest.

I have seen that people will find any plot they can to grow something for themselves if they have some motivation. This desire might range from a tomato plant in an apartment window box to a terraced field chiseled out of a mountainside. I suggest that people universally value food security over absolute bottom dollar food price (including subsidies). This is why tax paying Americans have accepted (at least they should) to some degree, subsidies to growers to assure a significant portion of food production remains in our country. Maybe this isn’t on the mind of

the average American consumer everyday, but there is an intrinsic value in knowing where one's food comes from. We should work to link that need for security as one of those values within our farm policy.

Maintaining a diverse and dispersed population of growers as "food security agents" for the majority (consuming) public is "saleable" in this country. I believe our country can defend in world trade talks the position that decoupled payments, as part of a national food security policy, are not trade distorting.

I believe that the tax payers of this country are willing to support growers who actively operate their farms and demonstrate high levels of stewardship on the land. Just as few people chose to build their own house or maintain roads themselves, there is a case to be made that U.S. citizens will support performance payments to people actually working to achieve environmental improvement. And, in the arena of world trade, I believe little argument can be made against such payments. It is human nature for people not to wish their nest be soiled... at least if they can help it. They are willing to entrust and compensate others to help keep it clean for them. Farmers are at the grass roots level and on the front lines in this respect and are the perfect candidates to implement practices and receive compensation.

The vision:

Thinking again about the flattening economic world (borrowed from Thomas Friedman), if we build our agricultural policy vision around values that universally mean something to people, I don't think such policy will be successfully challenged at home or abroad.

This is why I am greatly in favor of a major decoupling of farm payments from production. As I suggested earlier, I believe unlimited payments based on production are fundamentally flawed, economically unsustainable, and need to be replaced.

Payments and policy need to be people-focused where the factors for receiving payments are environmental performance and active participation in farming. Policy structure should encourage entrepreneurship, cropping flexibility, and innovative problem solving as much as possible. Largest payments should be tough to earn rather than taken as "free money" entitlements. Leveraging mechanisms could link program payments with rural development funds to encourage growers, rural people and their respective communities to unify, determine, and solve local challenges hopefully creating local opportunities in the process.

As much as possible, land opportunity cost needs to relate more closely to productivity value derived from relatively unrestrained and creative management... not central planned program crop payments and their respective distortions. Balancing distortions from previous farm programs and managing the transition are the big challenges for any innovative new farm policy direction in my view. At least a goal and vision based process should help illuminate the right path. I seriously doubt much land will ever be left unfarmed in areas naturally suited for crop production... human nature tells me so.

Environmental and resource management incentives similar to CSP make sense. Growers with an "ownership attitude" for the resources they manage are the ones best suited to select from a shopping list of incentives. Incentives should be performance based as opposed to regulation heavy. Peer-reviewed science should be the basis used to research, estimate, and document environmental response and cost/returns for practices performed. From there, people can begin to

generate incentive values (in dollars) for those practices. It might take work, but things of lasting value often do.

EQIP and CSP programs offer some guidance on potential stewardship enhancement categories and payment strategies. But I hear the methodology needs some work in getting good input from the most affected stakeholders. On-farm research and system evaluation projects have merit as an enhancement category as these generally stimulate innovation. The public supports wildlife and scenic habitat so these may be elements of a category. The key is to establish monetary value for such activities and compensate growers once they choose items best adapted to their situation. Should this path be taken for the primary means of farm support, then it is critical that the Federal Government fulfill its part of the agreement by consistently providing the resources (money and technical support) promised. This should NOT be an in/out/maybe kind of program approach. There is significant trust that must be maintained for success.

Ideas for Implementation:

Utilizing the FSA county office/committee type of structure and NRCS for technical support in administering direct decoupled payments and environmental stewardship incentives respectively, the payments would be dispersed directly to persons with evidence of actually farming crop land. The numbers I toss out might be suitable for northwest Iowa but not necessarily everywhere else in the U.S.

By adjusting the proposed levels of payment, I think direct decoupled payment might serve as a mechanism for transition in areas incredibly dependent on huge annual subsidies. But, there is significant risk that resolve to reduce payments will wither over time due to lack of fortitude or by strategic design of interest groups... this must be watched or the trust promised in the process will be broken.

Per-acre direct decoupled payments could be something like \$25 per person per acre (\$50/married couple) up to the first 320 acres (total maximum \$16,000 annually going to two Social Security Numbers linked to those acres). This baseline payment structure could include various leveraging opportunities such as federal matching funds for use in qualified rural development or value added investments, farm (rainy or disaster day) savings, health savings accounts, and risk management vehicles that people could use to care for and manage themselves in tough times. I propose one-half the total payment at sign-up with the balance paid after demonstrating actual participation and completion of a crop cycle. To receive payment, you must be "real".

Eligibility requirements for full payment should include the signing a social security number linked affidavit declaring active participation in risk, management, and labor, as well as residency in proximity to (reasonable travel distance) the farmed lands during the principle cropping months. In regards to married couples, spouses need not demonstrate levels of physical participation equal to that they would as individuals. Marriage should not be a penalty. The program should be family friendly. Participation in multi-family farming arrangements such as family farm corporations, partnerships, limited liability companies, and other structures chosen for optimal business management should not degrade payments so long as each payment recipient (individual or couple) provides evidence of acreage share and all other declarations I suggest as requirements above. Proof of citizenship should be required. There should be an allowance for special circumstance such as in the case of physical disability due to an accident for example.

"Push" in land prices should be marginalized compared to what we see under current coupled programs. The goal and purpose of such decoupled payments should be to encourage and

maintain an actively participating rural population free to determine their best economic combination for creative and innovative use of the assets they control. Some groups fear that any significant change in federal farm programs will eventually lead to the end of program payments altogether. Eventually, non-farm tax payers will grow tired of hearing that the equivalent of six figure checks are being sent to millionaires on an annual basis... especially if those millionaires aren't farming. Rather, I suggest payments directly supporting families with an entrepreneurial spirit and passion for farming in a market oriented environment will yield higher taxpayer value, palatability, and support.

Crop price would be market based. Margins would likely remain tight. This could encourage sharing of highly productive but expensive equipment and technology to lower cost for moderate acreage operators. Greater feeling of community as opposed to the sense of outright competition now seen may result from increased cooperation.

It is likely some individuals will utilize a strategy of high acreage, high volume production. However, once over 320 acres, their relative subsidy will decline accordingly. I have no problem with large acreage operations as long as they operate in a relatively unsubsidized environment. Some operations will prosper, some will not... just like what happens with Main Street businesses. They don't have much of a "safety net". Fit, trim and innovative businesses are a good thing.

Disaster payments should be eliminated in favor of actuarially sound crop insurance products. Limiting the number of acres eligible for premium buy-down is important or insurance will become the next driver in farm size competitiveness issues. There should be some limited circumstance national or world trade emergency provisions. Multi-month full recourse crop loans may make some sense as marketing and cash flow tools allowing growers to better tolerate periods of wide basis. Storage is risky but so is farming. With risk goes reward. Not every acre or bushel should have the protection of the so called "safety net" it just isn't economically logical.

As noted above, I believe CSP type payments are a natural fit for a values and mission driven farm policy. Payments within this model might be twice that of the direct decoupled payment I illustrated above... \$100/acre per farming couple up to 320 acres for an Iowa example. In the past, the primary factors for payment were land controlled and resultant production. Performance based programs should be well defined. I think that payments should be based on PERCENT of total acres achieving various categories and multipliers. To achieve 100% of the stewardship incentives, 100% of the land farmed should be managed in an enhanced stewardship fashion.

For example, let's say the maximum annual payment for soil quality enhancement is \$10,000 per couple. Let's say that long term no-till and complex rotations each have top scores in that category. Maybe a farming couple is operating 1000 crop acres. Maybe only 500 of those acres are suited to a no-till corn/soybean system. Other land may have other needs and requirements with part of it unfit for annual row-crop production. To me, there is no need to shackle the farming couple to a practice that is ill suited or poorly adapted just to fit a "box" for payment. If they can adapt methods that meet the goal criteria on 80% of the acres by using no-till on some acres and rotation on others (where row crop adaptation is poor) then pay 80% of the maximum and free the couple to seek creative and innovative practices to meet incentives on the balance of the acres.

Under the example above, one can envision other brackets and groupings in a check list fashion whereby various combinations and multipliers would attain maximum stewardship payments.

Environmental enhancement will occur if well designed programs stimulate the natural sense of innovation and creativity that is inherent to most farmers. Use carrots, not sticks.

In summary, the direct, decoupled payment added to maximum stewardship enhanced payments would total \$48,000 for an actively farming couple on 320 acres. This is an area that will be rather open to argument as it should be. But, at least, there is better chance of knowing where the money is going. I chose 320 acres because average farm size has already surpassed this thus acreage for pay would not drive size larger.

Decoupled payment strategy is helpful in allowing formerly non-program crops to find a place in the production matrix. There is no linkage concern, thus no penalty for pasturing grass feed organic beef on former program crop corn land for example. Breaking the coupling should open up opportunity to service markets.

The payments should be traceable to people who meet well defined criteria. Align the program criteria with the goals, vision and values as I mentioned earlier. Increased self determination should be a goal. There are numerous other enhanced payments (like rural development projects) that may work effectively within this performance and goal based structure.

There is always a need for oversight, audit mechanisms, and penalties for fraud. I believe that the locally elected committee structure is a good first layer of oversight. I believe that people should be given 1 maybe 2 “strikes”. With each strike, those breaking the rules would be given counsel on where they broke rules and how to stay in compliance. Those guilty of fraudulent pursuit of payments (used up their strikes) would find their Social Security Number permanently barred from receiving program payments. And, any operation they were associated with should be barred as well. Peer and business partner pressure might be useful in setting boundaries for those contemplating fraudulent arrangements.

Pete Rose was removed from his career playing major league baseball because he broke the rules by betting on games. Fraudulent farmers should feel similar pain. This program structure is based on a public trust that growers are doing the right things in exchange for payment. Verification and enforcement are essential elements in maintaining that trust. If you accept government funds, you should be held accountable.

Role of individuals (farmers and families):

With land capable of cropping (including hay, grazed forages, vegetables, possibly fruits and nuts) the Iowa farmer will be free to determine crop mix and utilize production methodology he/she feels will yield a marketable crop from the resources and skills they have available. Erosion controls as required in past farm bills will still need to be met even on acres not achieving stewardship enhancements.

This program structure will require aggressive crop management and marketing skills. Payments topping out at less than \$50,000 per year would not be enough to subsidize and protect large wild cat farming ventures to a significant degree. Former program designs with high payments gave large operators “muscle” in the fight for asset control. This will go away. But, the limited direct payment would greatly reduce the pressures family living costs present in the management decision matrix of family sized farms. Land values (price and rent) would likely decline to more market competitive levels based on productivity and crop mix value.

Years ago, a neighboring farmer made the statement to me, “Give a farmer a nickel and he will borrow a dime to spend with it.” Farmers will invest payments wherever they feel there’s a reasonable opportunity for return... this might be in their family, their business, or possibly their community. It is not the place of government to tell them where that should be... carrots, not sticks. It is very likely payments as I propose will circulate more effectively in the rural community than the monies doled out in past programs. Open and competitive markets are the best method we have for balance.

Roles of Governments in Agriculture Policy:

If a market based philosophy becomes the norm in U.S. agricultural policy, then oversight by respective government agencies is critical. Open, transparent, and competitive markets are essential for this form of asset allocation to perform correctly.

In respect to world trade, fiscal policy actions of trading partners need to be monitored so they don’t become a means of back-door trade distortion.

At home, there is cause for alarm with the trend to limited players in seed genetics and meat packing. There should be enhanced oversight and regulatory enforcement in regards to anti-competitive business activity in both the supply and demand sides of the markets farmers have to deal with... no matter what changes occur in the next bill.

Domestic farmers would be subject to a world market environment in the market-based policy I propose. Most market players dealing with growers are multi-national. The world is their playground. Individual growers wield far less market power than the companies they deal with. Laws need to be enforced that balance the equation. Theodore Roosevelt understood the importance of balance 100 years ago. A level playing field may never be achieved. But, nearly unlimited payments to large farming operations help to position them at the top of a mountain where there is little competition from entry level players. This is not how capitalism should work. The government is helping to pick “winners” it seems.

A comprehensive energy policy whereby our country develops its energy resources is hugely important. Natural gas is of particular interest to farmers as natural gas supply and pricing impacts nitrogen fertilizer production economics. High prices for and/or short supplies of natural gas could cause our domestic anhydrous ammonia production to shut down. Most nitrogen fertilizer forms are manufactured from anhydrous ammonia. Domestic ammonia production has been a competitive advantage for U.S. growers. For grass crops such as small grains and corn, nitrogen is a required annual input unlike phosphate and potash fertilizer which can sometimes be foregone in a year of reduced availability. When our domestic ammonia production shuts down, demand is serviced by offshore nitrogen production. Often, this is supplied in less concentrated and potentially less environmentally stable (prone to field loss) urea solid and urea-ammonium-nitrate liquid sources. If we lose anhydrous ammonia production here at home, American farmers are at the mercy of world production and pricing. We farmers don’t need an OPEC equivalent in the nitrogen fertilizer supply chain. The U.S. needs to develop its natural gas supplies to the fullest extent possible.

Finally, responsible and sensible tax and fiscal policies are as important to rural citizens as they are to everyone else. I believe it is important for this country to move to a flatter, simpler tax structure. Tax proposals based on results (such as the Fair Tax) need to be considered. Such systems might ease the transfer of assets to younger generations.

Thanks so very much for the opportunity to express my thoughts. I hope they are taken under serious consideration and prove valuable in forging a farm policy we farmers can be proud to be a participant in and tax payers can feel comfortable in supporting.

For the record:

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**Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses**

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. **Name:** **Thomas E. Oswald**
2. **BusinessAddress:** **909-470th Street**
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3. **Business Phone Number:** home: (712)436-2684 cell: (712)229-0355

4. **Organization you represent:** Today, individual farmers like me... no other group.

5. **Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:**

I have served as a District soil and water conservation commissioner as well as a Director on the Iowa Soybean Association. I have resided, worked, and farmed near Cleghorn for 25 years.

6. **Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:**

I have been a member of both Congressman Tom Latham and Congressman Steve King's Agricultural Advisory Committees. I received (with distinction) both Bachelor and Master Degrees in Agriculture from Iowa State University.

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7. **If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:**

not applicable

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